The Great Atlantic & Pacific Tea Company, Incorporated Annual Report -- 1984
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A&P

The Great Atlantic & Pacific Tea Company, Inc. Annual Report 1984

Fulfilling the Promise

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Comparative Highlights (Dollars in thousands except per share figures)

For the fiscal year	1984	1983	1982
Sales	**$5,878,286**	$5,222,013	$4,607,817
Income before extraordinary credits	**50,779**	31,401	21,361
Net income	**215,779**	47,551	31,211
Income per share before extraordinary credits	**1.35**	.84	.57
Net income per share	**5.74**	1.27	.83
Expenditures for property	**112,695**	72,564	33,128
Working capital	**170,292**	166,381	185,069
Current ratio	**1.36**	1.34	1.45
Stockholders' equity	**582,953**	375,789	329,372
Book value per share	**15.50**	10.03	8.81
Number of stores at year-end	**1,001**	1,022	1,016

Contents

Cover:
Last year's Annual Report featured the model for a totally new A&P store to come. On November 29, 1984, the A&P Futurestore in [illegible] New Jersey became reality.

Large, full-color murals are put in place, as construction work on the first A&P Sav-A-Center, in Melville, N.Y., neared completion in March.

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To Our Stockholders:

With the completion of 12 consecutive profitable quarters, a strong financial picture and an aggressive capital expenditure program well underway, A&P is ready for the challenge of 1985, which is to maintain the momentum achieved over the past three years, while rebuilding and expanding our store network to meet the best of the competition.

Fiscal 1984 net earnings were $215,779,000 or $5.74 per share, on sales of $5,878,286,000. Results included an extraordinary credit of $135,000,000 recorded in the first quarter, reflecting part of the pension surplus reversion. Also included were the use of net operating loss carryforwards of $30,000,000 and realized gains from the sale of marketable securities totaling $22,474,000, before taxes. In May of 1984, we carried out the court-approved settlement terminating our previous employee pension plan, and implemented the new retirement savings program for current employees. In finalizing the pension issue, the Company also made one-time payments to retired A&P employees approximating $11 million, which were in addition to the settlement agreement.

As we address the current year and the future, I believe we have several reasons to be optimistic First, the ability of our Company to maintain profitability and market share in 1984 is evidence of our more competitive cost structure, which is now comparable with industry standards. Second, we have the financial resources needed to carry out a well-planned, long term program of modernization and expansion. Third, we now have within the Company the people and systems resources necessary to bring A&P once again to a position of industry leadership.

1984 was the third full year of our extensive capital expenditure program as we opened 18 new stores remodeled or expanded 84 and acquired 39 throughout our operating groups and subsidiaries We enter 1985 with increased momentum, currently remodeling stores at the rate of nearly three each week, and building new stores at the rate of one every two weeks.

Representative of our Company's renewed retailing approach was the debut in 1984 of the A&P Futurestore prototype with two stores in Baton Rouge, Louisiana and one in Allendale, New Jersey. More of these dramatically designed stores are scheduled for 1985. On March 20, 1985, we unveiled the first A&P Sav-A-Center in Melville, Long Island, New York, and several of these highly promotional prototype stores are scheduled in the current year. Customer reaction to these and other new prototypes in Canada, Family Mart, Kohl's and Super Fresh has been enthusiastic and sales performance is above expectations

In 1984 we continued to take advantage of acquisition opportunities with the purchase of 20 Pantry Pride stores in Virginia and 11 Eagle stores, which were added to the Kohl's subsidiary in Wisconsin. We also acquired individual stores in several areas as part of an overall strategy to add locations in existing markets. The most significant step toward major expansion, however, has been the agreement concluded earlier this year by our Canadian Company to acquire 93 Dominion stores and certain support facilities in the province of Ontario. This was an unusual opportunity because we were able to select the best stores and other assets that were attractive for the future growth of our

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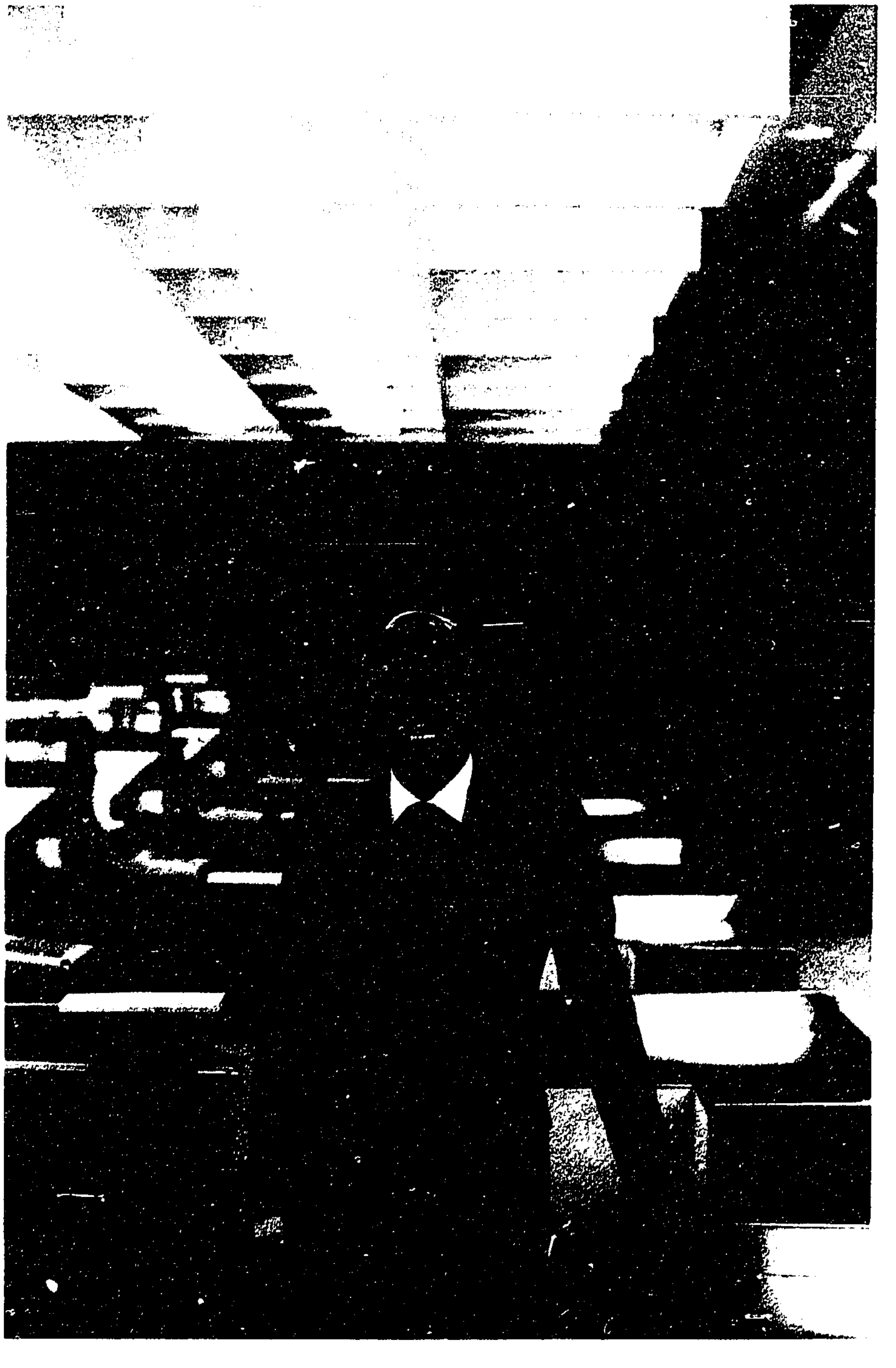
Above all, our dominant emphasis in 1985 is the improvement of our merchandising skills to maximize the impact of our bigger and better stores.

Canadian operation. We excluded from the purchase manufacturing plants, obsolete stores and those markets which did not fit in with our long term development plan.

As a result of the opportunity to pick and choose under the purchase formula, the Dominion stores to be acquired are almost without exception, large, well-fitted facilities in excellent locations, and combined with our existing strength, will establish clear market leadership for us in eastern Canada. We also are acquiring a 900,000 square-foot grocery warehouse, a perishable warehouse and a new office facility, at a time when our own retail growth was exceeding the capacity of existing support facilities Although the stores to be acquired will continue operating under the Dominion name, they will provide many synergistic benefits for our entire Canadian operation, particularly in the areas of distribution and purchasing.

During 1985 we anticipate that our new Kohl's subsidiary will show its first meaningful profit from the improved sales base developed during the past year since its acquisition. We have the advantage of a unique labor contract which last year provided bonus incentives to most Kohl's employees for their share of productivity improvements achieved. The Kohl's contract was modeled on the quality of work life concept pioneered at Super Fresh Food Markets, now in its third and most productive year as the fastest growing food retailer in the Philadelphia/Delaware Valley area.

Since its inception in 1982, the Super Fresh subsidiary has achieved an outstanding consumer franchise through improved customer service while achieving better labor productivity. We anticipate a



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...and Also Achieve Major Progress In the Rebuilding of Our Store Network.

successful negotiation in 1985 for a continuance of the unique Super Fresh labor contract, which will prove to be a platform for further growth.

A&P continues to strive for the extension of quality of work life incentive agreements in other areas where chain operations are often at a disadvantage with non-union competition. Our experience with Super Fresh has convinced us that this type of labor agreement encourages innovations that achieve productivity gains at store level, providing greater rewards for employees, consumers and the Company. It is the best system we have found to do that effectively, and we hope that in the fullness of time the Super Fresh, incentive type agreement can be made applicable to the total company.

Our three-way approach to store network development—new stores, remodelings and acquisitions—has played a key role in improving our competitive ability thus far and will form the basis of the growth to come. Whatever we achieve, however, will be the product of total organizational effort. Even the finest facilities in outstanding locations will fail if store-level discipline is off the mark, or merchandising and distribution support is lacking.

Merchandising is the key ingredient in any retail success formula, and continued improvement of that phase of our business remains a major priority. Over the past five years, we have directed our efforts at becoming more competitive in terms of our pricing, product variety, national brand emphasis and private label quality. More recently, A&P's new perishable departments, fresh fish, bakeries, expanded delicatessens, gourmet meat departments and others have created new areas of challenge for our merchandisers.

We also seek to improve the merchandising and promotion of high margin categories such as general merchandise and health and beauty aids Indeed, we are better equipped in these areas than most competitors, with two of the nation's best automated distribution facilities, in Dunmore, Pennsylvania and Fort Wayne, Indiana.

Continuing to sharpen control of operating costs will remain a key element of our strategy. The implementation of new programs aimed at increasing efficiency and lowering our cost structure is essential as competitive conditions place more pressure on operating margins.

Above all, our dominant objective in 1985 is the improvement of our stores to create the right environment for customers. This involves improving our facilities through capital investment; creating better customer service and employee attitudes through the extension of our quality of work life program; developing lower prices and more attractive promotions through cost efficiencies and productivity gains; and raising the quality of the products we sell through training and new expertise, especially in perishables. The attainment of this objective and the responsibility for our permanent success rest with all of the people of A&P, and I have full confidence that they are up to the task

James Wood

Chairman and Chief Executive Officer

April 19, 1985

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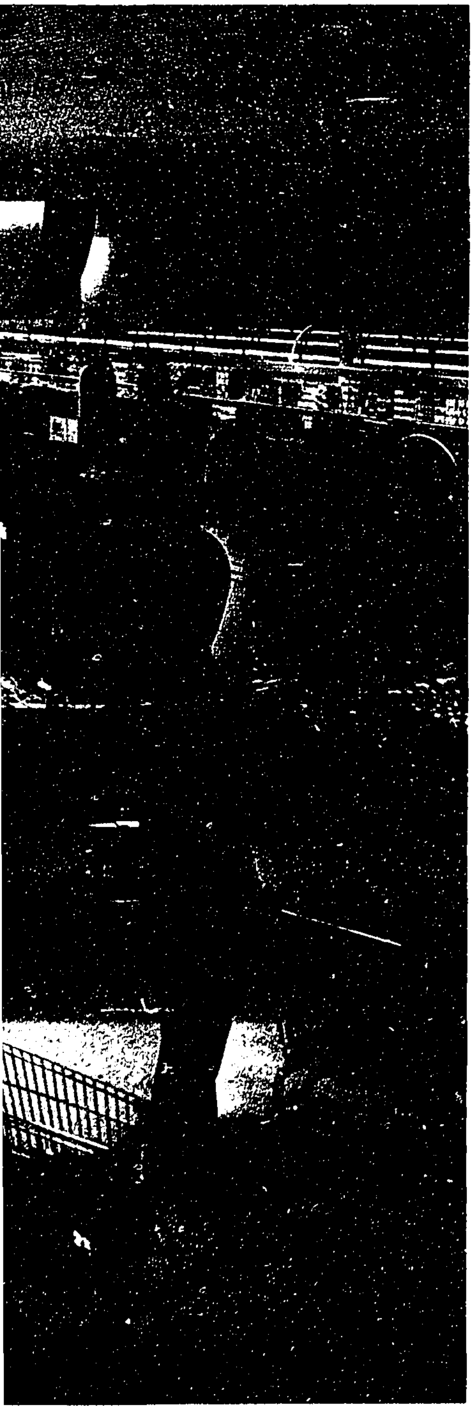
The Move to Larger, More Versatile Stores Is the Cornerstone of A&P's New Development Plan

A major step for A&P was the debut of the Futurestore concept. With its unique decor and graphics, and upgraded merchandising approach, Futurestore represents a shopping atmosphere that is both functional and appealing.



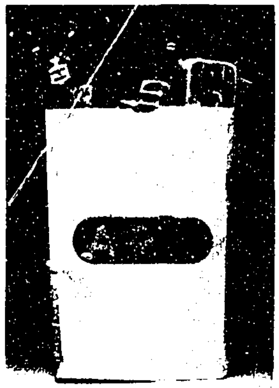
Late in 1984, A&P completed the conversion of three supermarkets to a brand new format, the A&P Futurestore.

On one level, this represented the fulfillment of the promise made a year earlier that A&P would unveil a store format unlike any other A&P, or in fact, any other supermarket. In a broader sense, however, it reflected a renewed marketing philosophy, conveying a feeling of what's really new at A&P as our Company embarks on a plan of growth and expansion.

That philosophy is based upon our resolve to develop the kinds of stores that enable A&P to establish a clear-cut image, a uniqueness, in each of the many and diverse markets we serve. Put simply, it is our goal to respond, in every location, with the kind of store we know the consumer wants and needs.

Yet consistent with the objective of tailoring our stores to their immediate market environments, Futurestore is just one of the approaches being implemented as capital programs for store remodeling, construction and acquisitions continue to unfold. Our investment program is geared to the development of larger stores throughout the U.S. A&P network, as well as in the Super Fresh, Family Mart, and Kohl's subsidiaries. Although most will not feature the visual treatment employed in the Futurestore, they will share its emphasis on merchandise variety, special service departments, top quality meats and produce and competitive pricing.

The positive impact of larger, more versatile stores is very much in evidence in A&P's Canadian subsidiary, which is well advanced in its store expansion and remodeling activity. The growing percentage of stores in the 40,000 square-foot



The majority of our stores come under the umbrella of U.S. Retail Operations, which oversees the Metro, Northeast, Mid-Atlantic, Southeast, Southern and Michigan groups, and the Richmond Division. In 1985, the Company will continue the extensive capital improvement program for the modernization and expansion of stores throughout the U.S. A&P network as well as A&P's subsidiary operations.

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The growth of our Super Fresh Food Stores subsidiary in the Philadelphia/Delaware Valley area continued at an impressive rate in 1984. The unique Quality of Work Life program pioneered by Super Fresh in 1982 continues to promote employee participation and enthusiasm, as they work to maximize productivity, and their own financial share in the success of the Company.

range has helped A&P Canada sustain its growth trend, and maintain its reputation for retailing excellence in Ontario.

The past year marked the openings of outstanding new prototype stores in both our Kohl's and Super Fresh subsidiaries. In addition, our Florida-based Family Mart operation completed its remodeling program, fine-tuning its store layouts and merchandise mix.

With our substantially improved financial picture and continued earnings trend, we will intensify the development program already underway, to bring our U.S. store network to a new standard over time.

This year marks the debut of a second new store format for our Company, called the A&P Sav-A-Center. Similar to the large A&P superstores in terms of service level and perishables emphasis, Sav-A-Center is more sharply promotional, combining the versatility and flexibility of the superstore with the strong price emphasis of a warehouse store.

Although the discount emphasis is immediately apparent both in the prices themselves and signage throughout the store, this is far from the "bare bones" approach that characterized the early warehouse store concept.

The Sav-A-Center interior design utilizes full-color photo-murals on perimeter walls, especially dramatic above the large produce department, which offers an unusually wide selection of fresh fruits and vegetables from around the world.

There is a fresh seafood shop displaying numerous types of fish, lobster and other shellfish. Sav-A-Center's large delicatessen features more than 200 items, and includes a deli-to-go section with hot foods, soups and other specialties.

An elaborate salad bar, international cheese island and fresh-squeezed juice bar are other standout sections, rounded out by an extensive bakery department, offering a broad range of freshly-baked items. Included is a self-service section, where customers can select their own fresh doughnuts, rolls and Danish pastries.

The initial Sav-A-Center opened in March in Melville, N.Y., the first of a number to be opened in the Metropolitan New York area and other A&P territories during the course of 1985.

This approach will occupy an important niche in our marketing plans, establishing a strong economy image in selected locales with little sacrifice in variety or service.

The third tier of our strategy remains the conventional A&P supermarket. Although it is clear that we see larger stores as the leading edge of new development, we are also convinced that this does not signal the total demise of the smaller supermarket. In many locations, superstores cannot be implemented for various reasons—lack of market density in rural areas, and high real estate costs in urban centers are two examples. Further, market research studies have shown that many consumers prefer smaller markets, for reasons of shopping ease and convenience of location. In those A&P locations that are not suited for significant expansion, yet have convenient locations and a strong neighborhood franchise, we intend to sharpen our merchandising approach to maintain customer loyalty.

The effect of a powerful merchandising program is the product of several steps. It begins with advance planning at senior

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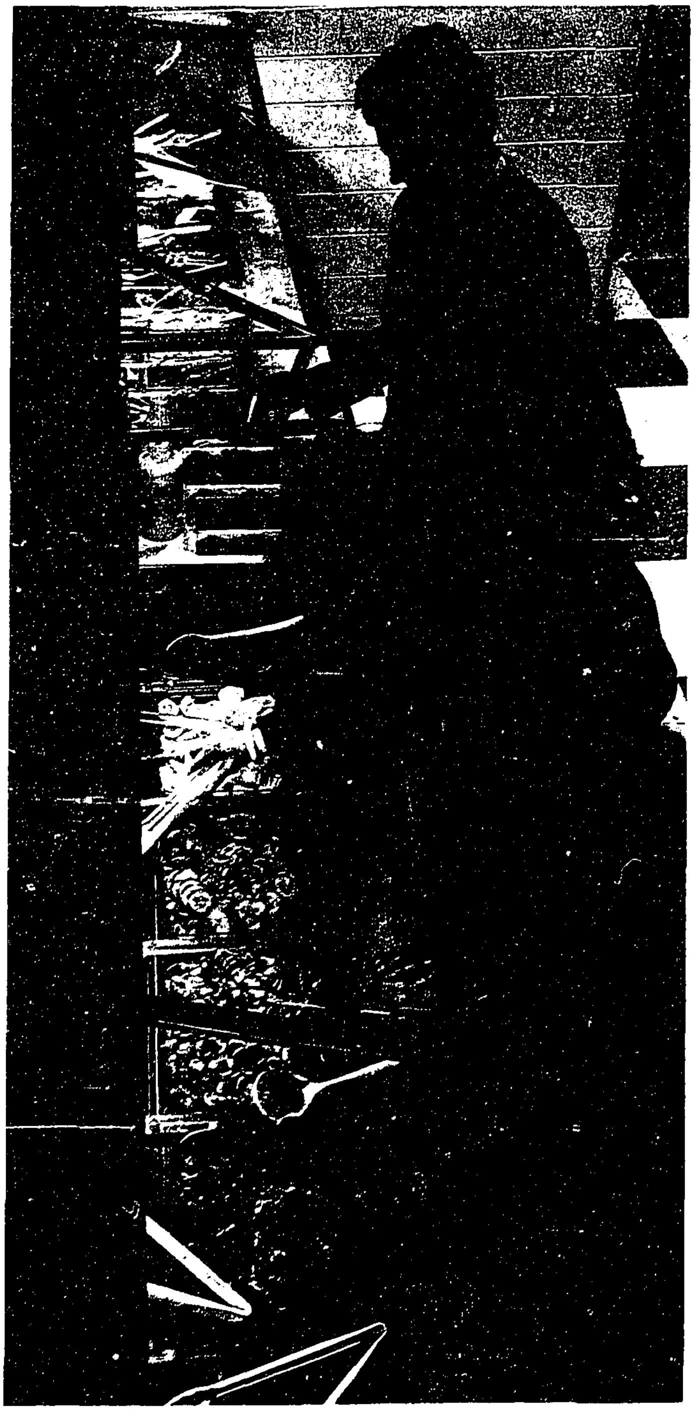
We Are Upgrading the Supermarket with New Products and Service Departments

Among the factors guiding our renewed merchandising thrust is the ongoing trend toward health and diet consciousness, and emphasis of fresh foods.



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One of the great A&P traditions is Eight O'Clock Coffee, which continues to grow in popularity. A&P has upgraded its line of bean coffees with expanded varieties, and new merchandising approaches.

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management levels. This is followed by communication of specific objectives throughout the Company's divisional framework, and finally, implementation at the store level, with ongoing attention to consistency of execution.

The trend toward greater selling space over the years has created a wave of new product lines and service departments, all proven successful in supermarkets. Some, such as delicatessens, bakeries and increased frozen food lines, have become accepted fixtures in most stores Others require educated decisions regarding their viability in various locations. Together, they represent the broad and still-growing range of merchandising tools that will shape the future of our industry, and of our Company.

Today's remodeled and expanded A&P stores, and those to come, feature varied combinations of service-oriented departments which become the focal points of their stores. Among them are expanded delis, with broad selections of prepared food; in-store bakeries which, in addition to the standard assortment of baked goods will also cater to special orders; gourmet food islands offering imported cheeses and coffees, fresh pizza and pasta, and other specialties; service meat and seafood sections staffed by employees qualified to advise customers in their selections; and extensive floral "shops" within the store.

The growing health and diet consciousness of consumers has led to expanded produce areas, which also include exotic specialty fruits and vegetables, fresh salad and juice bars, and nutrition sections.

To accent one-stop shopping appeal where possible, health and beauty aids offerings have become more comprehensive, and serviced cosmetics counters are growing in number. Beyond those areas, A&P is considering additional general merchandise categories to further improve our variety image, as well as the profitability of the overall merchandise mix.

This growing emphasis on service and new items does not reflect a de-emphasis of the traditional role of groceries. However it does dictate more consistent fine-tuning to maximize the potential of the available space. A good example of this is the importance of ethnic merchandising in many locations. Another is the need to tailor package size variations to cater to local preferences in the various grocery categories.

Our merchandising programs for the future must enable us to accomplish two aims—maintain our ability to do the things our customers have always expected us to do, namely to operate good supermarkets; and utilize the new products and departments to add convenience and enjoyment to the shopping experience.

As food retailers, the frequent and central role we play in the lives of our customers provides our greatest opportunity, but also our most difficult challenge.

Each time a shopper enters one of our stores, we have the opportunity to demonstrate our ability to serve him or her in a variety of ways. The challenge? To maintain a level of consistency, and display a keen awareness of who our customers are and what they expect of us. And as their lives change in this socio-economic era of perpetual motion, we must have the capacity to move along with them.

The striking changes in consumer life-

Kohl's Food Stores, with headquarters in Milwaukee, Wisc., was purchased by A&P late in 1983, the first major retailer ever to be acquired by the Company. Kohl's serves the Milwaukee and Madison, Wisc. areas with conventional supermarkets that stress strong perishables operations, outstanding deli-bakery departments and high levels of customer service.

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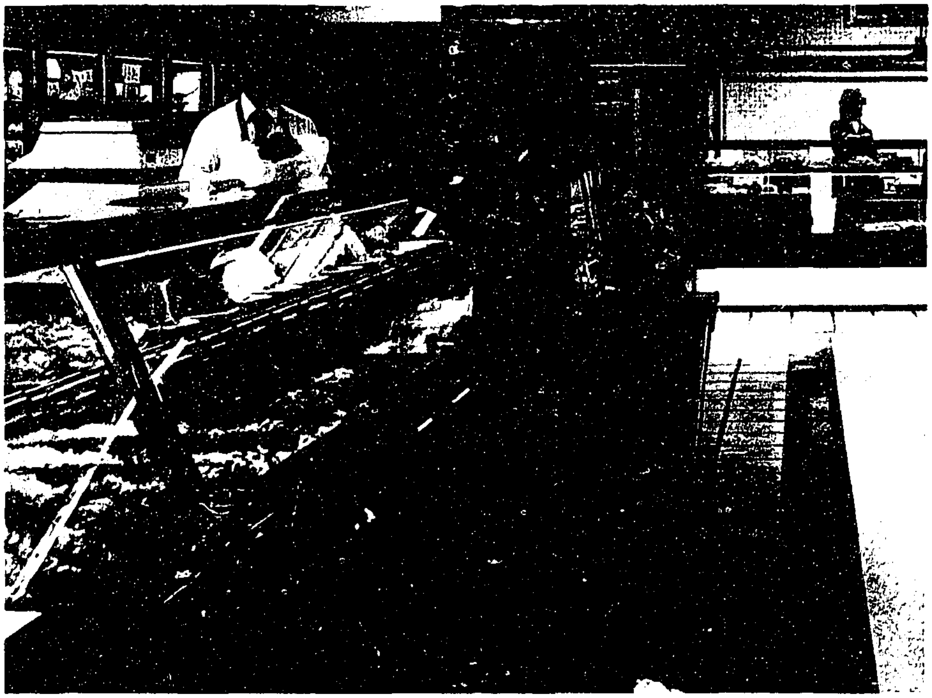
Family Center, Inc. operates our Family Mart food and drug combination superstores in the Southeast, with the major concentration of stores in Florida. These spacious, upscale stores emphasize one-stop shopping, with a broad assortment of general merchandise in addition to pharmacy and the traditional supermarket assortment, as well as specialty foods service departments.

Expanded deli-bakeries, and the addition of floral and other new departments, symbolize the move to a total marketing approach.



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styles which have taken place today represent the driving force behind the new trends in innovative store design and imaginative merchandising. In the past, consumers could be neatly categorized according to a mix of their age, income, education level and economic "class." Products were viewed merely as types of commodities, sold on a low, medium or high price basis, and purchased by shoppers in a manner consistent with their categories. With as much as 75% of the buying population falling within a broad spectrum of "average" income and taste, retailers and manufacturers alike could cater to this mass market and be successful.

Sharp changes began taking shape in the 1960's, establishing a pattern which holds today. Among the key factors in this education are the following:

The progression of the "baby boom" generation from their teen years to adulthood, and the formation of their own families;

Much heavier movement of women into the workforce than had been forecast;

Some flattening, and a definite scrambling, of incomes based on occupation, whereby many in blue-collar classifications earn more than those in so-called white collar jobs;

Increased availability of lifestyle "options," due to higher levels of education, increased opportunity to travel and the significant influence of the mass media;

Cultural diversity and enrichment as the result of the heavy waves of immigration from a variety of nations;

The growth in recent years of health and fitness awareness, which has altered the way people work, play and eat.

Confronted with a wide range of population segments, retailers recognize that there is no "typical" shopper, and we are developing the ability to customize our stores and merchandise assortments based on the consumer profiles in each neighborhood.

Increasingly, our decisions must reflect the results of accurate research, which includes demographic information on the income levels, ethnic make-up and household sizes which prevail in each of our marketing territories. This is crucial at a time when the old concept of "Mrs. Consumer" has given way to a mixture of single shoppers, male shoppers, working women, single parents, and the elderly.

Once those profiles are intact, we must keep in touch through such vehicles as consumer panels, spot interviews in the stores, and more formalized surveys. This kind of meaningful dialogue with our customers is one of the tools needed to establish both our image in the marketplace and our style of operation.

In this era of high-tech sophistication, even a business as seemingly basic as ours has grown in complexity, requiring a broader range of skills to assure an efficient and successful operation.

Of all our employees, the most visible to our customers and the public in general are those who work in the stores. In addition to their essential duties in this fast paced retail environment, they carry the responsibility of representing A&P every day. This is a critical element of their performance, since the degree of competence, courtesy and friendliness they bring to their jobs determines A&P's image to a great extent.

In essence, it is their responsibility to take

A&P's Canadian Company, for years an outstanding retail operation in the province of Ontario, posted another year of growth in fiscal 1984. Known for customer service and outstanding deli and bakery departments, A&P Canada has also made *substantial progress* in its store remodeling programs.

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The A&P slogan "We Watch our P's and Q's" is well known to consumers as an advertising and merchandising banner emphasizing price and quality, in the great A&P tradition.

During the first quarter of fiscal 1985, A&P Canada agreed to acquire 93 supermarkets from Dominion Stores Ltd. of Ontario, as well as two distribution centers and an office complex. In addition to being A&P's largest acquisition to date, the purchase will establish a clear market leadership position for A&P in Eastern Canada. Combined with our existing strength in Ontario, the addition of the Dominion stores will give us a strong presence in Metropolitan Toronto for the first time.

care of the basics—those day-to-day elements of service which customers expect and appreciate. In the end, clean stores that are well-stocked, crisply merchandised and provide a pleasant atmosphere are the result of their talent and efficiency.

Yet the operation of A&P requires the special skills and efforts of many never seen by the public, who work in our offices, warehouses, coffee plants and bakeries. They monitor computerized information systems, buy and distribute merchandise, design stores, manage real estate, track store performance, prepare and analyze financial data, oversee facilities, and in general attend to the numerous details inherent in the administration of a large organization.

While the most obvious and publicized aspect of A&P's development program centers on the new A&P stores and marketing strategies, it is clear that the continued professionalism of those in other sectors of our Company is equally important.

We appreciate the efforts of all of our employees, whose performance both in the stores and behind the scenes provides the daily life support of our business. Their dedication and efficiency played a major role in the turnaround of The Great A&P, and will be the foundation of our growth in the years to come.

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Statement of Consolidated Operations (Dollars in thousands, except per share figures)

	Fiscal 1984	Fiscal 1983	Fiscal 1982
Sales	**$5,878,286**	$5,222,013	$4,607,817
Cost of merchandise sold	**4,523,275**	4,041,033	3,575,901
Gross margin	**1,355,011**	1,180,980	1,031,916
Store operating, general and administrative expense	**(1,201,394)**	(1,038,476)	(914,404)
Depreciation and amortization	**(66,242)**	(54,205)	(49,870)
Interest expense	**(31,641)**	(30,809)	(30,132)
Interest income	**21,271**	6,461	7,551
Gain on sale of marketable securities and other investments	**22,474**	—	—
Income before income taxes and extraordinary credits	**99,479**	63,951	45,061
Provision for income taxes	**(48,700)**	(32,550)	(23,700)
Income before extraordinary credits	**50,779**	31,401	21,361
Extraordinary credit–tax loss carryforward utilization	**30,000**	16,150	9,850
Extraordinary credit–pension	**135,000**	—	—
Net income	**$ 215,779**	$ 47,551	$ 31,211
Per common share:			
Income before extraordinary credits	**$ 1.35**	$ .84	$ .57
Extraordinary credit–tax loss carryforward utilization	**.80**	.43	.26
Extraordinary credit–pension	**3.59**	—	—
Net income	**$ 5.74**	$ 1.27	$ .83

Statement of Consolidated Stockholders' Equity (Dollars in thousands)

	Fiscal 1984	Fiscal 1983	Fiscal 1982
Common stock:			
Balance beginning of year	**$ 37,509**	$ 37,405	$ 37,393
Exercise of options	**159**	104	12
	$ 37,668	$ 37,509	$ 37,405
Capital surplus:			
Balance beginning of year	**$ 421,715**	$ 421,109	$ 421,052
Exercise of options	**898**	606	57
	$ 422,613	$ 421,715	$ 421,109
Cumulative translation adjustn			
Balance beginning of year	**$ (5,905)**	$ (4,061)	$ (4,218)
Exchange adjustment	**(9,672)**	(1,844)	157
	$ (15,577)	$ (5,905)	$ (4,061)
Retained earnings (deficit):			
Balance beginning of year	**$ (77,530)**	$ (125,081)	$ (156,292)
Net income	**215,779**	47,551	31,211
	$ 138,249	$ (77,530)	$ (125,081)

See Notes to Consolidated Financial Statements on pages 19 through 29

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Consolidated Balance Sheet (Dollars in thousands)

	February 23, 1985	February 25, 1984
Assets		
Current assets:		
Cash and short-term investments	**$ 72,591**	$ 65,195
Accounts receivable	**56,030**	49,929
Inventories	**483,963**	494,034
Properties held for sale	**22,255**	38,153
Prepaid expenses	**7,983**	6,955
Total current assets	**642,822**	654,266
Property:		
Land	**14,569**	10,673
Buildings	**49,806**	41,087
Equipment	**260,961**	241,656
Store fixtures and leasehold improvements	**227,920**	181,314
Total–at cost	**553,256**	474,730
Less accumulated depreciation and amortization	**(210,163)**	(197,993)
	343,093	276,737
Property leased under capital leases	**123,344**	128,800
Property–net	**466,437**	405,537
Marketable securities and other investments—at cost (approximates market)	**244,899**	—
Other assets (includes $130 million prepaid pension at February 25, 1984)	**8,943**	140,125
	$1,363,101	$1,199,928
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 11,872**	$ 19,007
Current portion of obligations under capital leases	**12,894**	12,562
Accounts payable	**262,415**	291,180
Accrued salaries, wages and benefits	**75,136**	70,434
Accrued taxes	**41,221**	29,518
Other accruals	**68,992**	65,184
Total current liabilities	**472,530**	487,885
Long-term debt	**94,635**	106,152
Obligations under capital leases	**148,366**	153,031
Deferred income taxes	**14,655**	12,214
Other non-current liabilities	**49,962**	64,857
Stockholders' equity:		
Preferred stock–no par value; authorized–3,000,000 shares; issued–none		
Common stock–$1 par value; authorized–80,000,000 shares; issued and outstanding–37,667,978 and 37,508,556 shares respectively	**37,668**	37,509
Capital surplus	**422,613**	421,715
Cumulative translation adjustment	**(15,577)**	(5,905)
Retained earnings (deficit)	**138,249**	(77,530)
Total stockholders' equity	**582,953**	375,789
	$1,363,101	$1,199,928

See Notes to Consolidated Financial Statements on pages 19 through 29

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Statement of Changes in Consolidated Financial Position (Dollars in thousands)

	Fiscal 1984	Fiscal 1983	Fiscal 1982
Source of funds:			
From operations:			
Income before extraordinary credits	**$ 50,779**	$ 31,401	$ 21,361
Expenses not requiring working capital:			
Depreciation and amortization	**66,242**	54,205	49,870
Charge in lieu of current U.S. income tax	**30,000**	16,150	9,850
Deferred income taxes	**2,400**	3,403	4,394
Working capital provided from operations before extraordinary credits	**149,421**	105,159	85,475
Extraordinary credit - utilization of tax loss carryforward	**30,000**	16,150	9,850
Extraordinary credit not providing working capital	**(30,000)**	(16,150)	(9,850)
Extraordinary credit - pension	**135,000**	–	–
Total working capital provided from operations	**284,421**	105,159	85,475
Conversion of prepaid pension upon plan termination	**130,000**	–	–
Disposition of property	**5,980**	7,936	22,739
Obligations under capital leases	**12,617**	3,185	(4,508)
Decrease in property due to foreign currency translation	**4,466**	756	3,980
Decrease (increase) in non-current notes receivable	**485**	2,225	(2,908)
Total	**437,969**	119,261	104,778
Disposition of funds:			
Increase in marketable investment securities and other investments	**244,899**	–	–
Acquisition of Kohl's (excludes working capital acquired)	**–**	21,019	–
Expenditures for property	**112,695**	72,564	33,128
Property leased under capital leases	**12,616**	10,007	5,787
Decrease in obligations under capital leases	**17,282**	5,616	6,307
Decrease in cumulative translation adjustment	**9,672**	1,844	4,061
Current maturities and repayment of long term debt	**11,517**	11,741	11,859
Other, net	**25,377**	15,158	34,329
Total	**434,058**	137,949	95,471
Increase (decrease) in working capital	**3,911**	(18,688)	9,307
Working capital—beginning of year	**166,381**	185,069	175,762
Working capital—end of year	**$170,292**	$166,381	$185,069
Increase (decrease) in components of working capital:			
Cash and short-term investments	**$ 7,396**	$(33,254)	$ 42,811
Accounts receivable	**6,101**	(8,165)	9,028
Inventories	**(10,071)**	79,384	(63,453)
Properties held for sale	**(15,898)**	20,344	(180)
Prepaid expenses	**1,028**	3,156	(3,532)
	(11,444)	61,465	(15,326)
Accounts payable	**(28,765)**	58,770	(36,077)
Current portion of long-term debt	**(7,135)**	7,148	10,042
Current portion of obligations under capital leases	**332**	1,883	(483)
Accrued expenses	**16,405**	7,699	(117)
Other accruals	**3,808**	4,653	2,002
	(15,355)	80,153	(24,633)
Increase (decrease) in working capital	**$ 3,911**	$(18,688)	$ 9,307

See Notes to Consolidated Financial Statements on pages 19 through 29

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Summary of Significant Accounting Policies

Fiscal Year—The Company's fiscal year ends on the last Saturday in February. Fiscal 1984 ended February 23, 1985, fiscal 1983 ended February 25, 1984 and fiscal 1982 ended February 26, 1983, each comprising 52 weeks.

Common Stock—As of February 23, 1985, the principal stockholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann"), owned 52.7% of the Company's common stock.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

Inventories—*Inventories are valued at the lower of cost or market*, with cost being determined on the following bases: inventories in stores—average cost under the retail method; other inventories primarily in warehouses and food processing facilities—cost on a first-in, first-out basis.

Properties—The Company leases a substantial portion of its facilities. Owned land and buildings generally consist of stores, food processing facilities and warehouses. Equipment, store fixtures, and leasehold improvements, generally, are owned, although the Company has equipment leasing programs for store equipment and trucks. Properties designated for sale and leaseback have been classified as current assets.

Depreciation and amortization are provided, generally on the straight line method, over the estimated useful lives of the respective assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to twelve years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases.

Pre-opening Costs—Costs incurred in the opening of new stores are expensed in the quarter in which the store is opened.

Income Taxes—The Company's policy is to provide deferred taxes in recognition of timing differences between income for financial reporting and income tax purposes. However, due to the Company's U.S. tax loss carryforward position, no deferred U.S. taxes have been provided on the differences between financial and taxable income.

Retirement Plans—In fiscal 1984, the Company terminated its defined benefit pension plan covering most non-union employees which was replaced by a defined contribution retirement savings plan. Costs of the new savings plan are accrued and funded on a current basis. Annual costs of the Company's remaining defined benefit pension plans consist of normal cost, amortization of unfunded prior service cost and changes in the unfunded actuarial liability resulting from plan amendments and changes in actuarial assumptions over 30 years and amortization over 15 years of annual actuarial gains or losses. Annual costs under union/management administered plans are expensed as provided for in the respective collective bargaining agreements.

Compensated Absences—The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $33 million and $36 million at February 23, 1985 and February 25, 1984 respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits."

Earnings Per Share—Net income per share is based on the weighted average number of common shares outstanding during the respective fiscal years. Stock options outstanding (common stock equivalents) had no material effect and therefore were excluded from the computation of net income per share.

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Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh Food Markets, Family Mart, Kohl's, Pantry Pride, Sav-a-Center, Sun, and Compass Foods Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and foreign countries (principally Canada).

(Dollars in thousands)	**Fiscal 1984**	Fiscal 1983	Fiscal 1982
Sales:			
Domestic	**$4,955,686**	$4,328,059	$3,841,218
Foreign	**922,600**	893,954	766,599
Total	**$5,878,286**	$5,222,013	$4,607,817
Income from operations:			
Domestic	**$ 57,296**	$ 63,536	$ 47,063
Foreign	**30,079**	24,763	20,579
Total	**$ 87,375**	$ 88,299	$ 67,642
Assets.			
Domestic	**$1,184,199**	$1,008,604	$ 938,813
Foreign	**178,902**	191,324	148,582
Total	**$1,363,101**	$1,199,928	$1,087,395

Indebtedness

Long-term debt (exclusive of current maturities) consists of:

(Dollars in thousands)	**February 23, 1985**	February 25, 1984
9½% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$70,000**	$ 80,000
9⅞% Mortgage Notes, due in monthly installments of $83 through September 29, 1997	**11,667**	12,667
Other notes, interest rates of ⅞% to 14% due 1986 to 2002	**12,968**	13,485
	$94,635	$106,152

The Company has a Credit Agreement with various banks which allows the Company to borrow up to $100 million on a revolving basis until September 1, 1986. Thereafter, the Company has the right to convert any amount up to $100 million into a four-year term loan which amortizes equally in semi-annual installments. There were no borrowings under this Credit Agreement during fiscal 1984 and 1983. In addition, the Company maintains $52 million in formal lines of credit with banks.

The Company's loan agreements contain, among other things, certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 23, 1985, approximately $84 million of retained earnings were free of the dividend restrictions. At February 25, 1984 and February 26, 1983 the Company was prohibited from declaring dividends as a result of such restrictions.

Maturities of long-term debt during each of the next five fiscal years are: 1985—$11,872,000; 1986—$11,674,000, 1987—$11,696,000, 1988—$11,745,000; 1989—$11,807,000

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Litigation

On March 18, 1983 a judgment was entered by the Federal Court in Newark. New Jersey and on December 29, 1983, affirmed by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan. The action sought to prevent the termination of the plan and the distribution of the plan surplus assets to the Company. Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million On March 7, 1985, a purported class action was brought in the same Federal Court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue. The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the plan. The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief.

The Company is a defendant in a number of court actions brought by cattle producers and feeders pending in Dallas Federal Court under the style *In re Beef Antitrust Litigation.* All substantial damage claims in such actions have been dismissed by order of the Federal District Court, and such decision has been affirmed on appeal. Requests for an injunction and other relief remain pending in these actions.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business.

Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Acquisitions

On October 1, 1983 the Company acquired the net assets of Kohl's Food Stores ("Kohl's") for approximately $31 million in cash. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Kohl's are included in the Statement of Consolidated Operations from the date of acquisition. The excess of the fair value of net assets acquired over the purchase price has been applied as a reduction of the value of property acquired. Pro forma information has been omitted as the results of Kohl's prior to the date of acquisition would not materially affect amounts as reported in the accompanying Statement of Consolidated Operations.

On March 20, 1985, a subsidiary of The Great Atlantic and Pacific Tea Company, Limited signed a definitive agreement to purchase 93 stores, 2 warehouses and an office complex located in the Province of Ontario from Dominion Stores Limited for approximately $133 million. The agreement is subject to the approval of the Foreign Investment Review Agency of Canada and will be accounted for as a purchase.

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Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheet includes the following:

(Dollars in thousands)	**February 23, 1985**	February 25, 1984
Real property leased under capital leases	**$188,399**	$186,976
Equipment leased under capital leases	**43,121**	40,960
	231,520	227,936
Accumulated amortization	**(108,176)**	(99,136)
	$123,344	$128,800

Rent expense for operating leases consists of:

(Dollars in thousands)	**1984**	1983	1982
Minimum rentals	**$47,044**	$43,440	$39,528
Contingent rentals	**5,896**	4,629	2,694
	$52,940	$48,069	$42,222

The minimum annual rentals for leases in effect at February 23, 1985 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1985	$ 7,561	$ 23,947	$ 50,387
1986	5,186	23,413	46,920
1987	3,869	22,860	43,016
1988	3,597	22,600	39,482
1989	508	22,159	32,051
1990 and thereafter	—	185,781	222,499
	20,721	300,760	$434,355
Less executory costs	—	(8,869)	
Net minimum rentals	20,721	291,891	
Less interest portion	(3,841)	(147,511)	
Present value of net minimum rentals	$16,880	$144,380	

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Stock Options

The Company has a stock option plan, approved by the stockholders in June 1975, and since amended under which officers and key employees were granted statutory incentive stock options (pursuant to section 422A of the Internal Revenue Code) and non-statutory options at not less than the fair market value at grant date In July 1984, the shareholders approved an amendment to the 1975 Stock Option Plan to provide for granting of stock appreciation rights ("SAR's"). SAR's allow the optionee, in lieu of exercising his option, to receive at the discretion of the stock option committee, shares of common stock, cash, or a combination of shares and cash having a fair market value on the date of exercise equal to the excess of the fair market value on the date of exercise of one share of common stock over the option price per share under the related option. Recipients and terms of individual grants are determined by a committee selected by the Board of Directors. As of February 23, 1985, all available options under the 1975 Plan have been granted.

In July 1984, the shareholders also approved a new stock option plan (1984 Stock Option Plan) under which 1,500,000 shares of common stock may be granted under similar terms and conditions as the 1975 Stock Option Plan with the addition that SAR's may be granted with or without the grant of stock options

At February 23, 1985, and February 25, 1984, there were 1,372,000 and 394,650 shares or SAR's respectively, which were available for future option grants. Of the stock options outstanding at February 23, 1985, 548,879 shares were exercisable at the date of grant and 726,817 at cumulative 25% increments after each of the first through fourth anniversaries of the grants. As of February 23, 1985, 717,737 SAR's were outstanding to certain employees under related stock option grants. The difference between the fair market value and the option price of SAR's granted resulted in a charge to operations of $3 million in fiscal 1984. The summary of option transactions is as follows:

	Incentive Options	Non-Qualified Options	Option Price Per Share	Total Option Price
Outstanding February 26, 1983	698,544	389,456	$ 4.94 to $12.06	$ 6,783,000
Granted	76,803	23,197	11.44 to 12 88	1,223,000
Cancelled or expired	(67,803)	(28,447)	5 50 to 12.06	(692,000)
Exercised	(79,272)	(24,500)	5.19 to 11.69	(710,000)
Outstanding February 25, 1984	628,272	359,706	4 94 to 12.88	6,604,000
Granted	53,750	481,250	14.75 to 16.37	8,555,000
Cancelled or expired	(13,750)	(5,000)	5.50 to 7.38	(118,000)
Exercised options	(130,409)	(29,013)	4.94 to 11 81	(1,058,000)
Exercised SAR's	—	(69,110)	4.94 to 6.19	(363,000)
Outstanding February 23, 1985	537,863	737,833	$ 4.94 to $16 37	$13,620,000
Shares becoming exercisable in:				
Fiscal 1983	161,290	11,834	$ 5.50 to $ 8.94	$ 999,000
Fiscal 1984	169,738	405,632	$ 5.50 to $16.37	$ 7,720,000
Shares exercisable.				
February 25, 1984	187,018	307,709		
February 23, 1985	221,347	610,218		

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Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	**Fiscal 1984**	Fiscal 1983	Fiscal 1982
Current:			
Federal	**$ 30,000**	$ 16,150	$ 9,850
Canadian	**12,400**	11,895	8,197
State and local	**3,900**	1,102	1,259
	46,300	29,147	19,306
Deferred—Canadian	**2,400**	3,403	4,394
	$ 48,700	$ 32,550	$ 23,700

The current Federal income tax provision represents a charge in lieu of U.S. Federal income taxes which has been offset by an extraordinary credit arising from the utilization of operating loss carryforwards.

At February 23, 1985, the Company has a U.S. operating loss carryforward, for financial statement purposes, of approximately $53 million. For tax purposes the Company has utilized all of its operating loss carryforwards. The carryforward available for financial statement purposes is due to costs relating to insurance, employee benefits and closed facilities which are not deductible for income tax purposes until such costs are paid. In addition, the Company has unused investment tax credits for financial statement purposes of approximately $47 million which will expire during fiscal years 1989 through 1999. During fiscal 1984 approximately $4 million of investment tax credits were utilized for income tax purposes.

The deferred Canadian provision results from the excess of depreciation for tax purposes over amounts recorded for financial statement purposes, and a provision for tax on current undistributed earnings of Canadian subsidiaries. Approximately $7 million of deferred income taxes have not been provided on undistributed earnings of these subsidiaries which are considered to be permanently invested. Approximately $26 million of retained earnings of the Company's Canadian subsidiaries can be remitted without an additional tax provision.

The difference between the Company's effective tax rate and the U.S. statutory rate is attributable primarily to a higher tax rate on Canadian earnings and state and local income taxes offset by tax benefits on dividends received.

The $135 million extraordinary pension credit recorded in fiscal 1984 includes a $62 million charge in lieu of U.S. Federal income tax offset by a $62 million extraordinary credit resulting from utilization of operating loss carryforwards.

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Retirement Plans and Benefits

On May 31, 1984, the Company terminated its Employees' Retirement Plan, which was a non-contributory defined benefit pension plan that covered substantially all non-union and some union employees. The termination resulted in extraordinary credits, net of applicable taxes, of $265 million. The credit of $135 million in fiscal 1984 represents the excess of the fair market value of the plan assets over the remaining liabilities associated with the plan termination less $130 million which was recorded in fiscal 1981.

On March 1, 1984, the Company adopted a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of their eligible salary The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution Participants become fully vested in the Company's contribution after 5 years of service. The Company's contribution charged to operations was $5 million for fiscal 1984.

The Company also provides retirement benefits to certain non-union and some union employees under several defined benefit plans. Most other full-time and certain part-time union employees are covered by industry plans administered jointly by management and union representatives. The cost of these plans approximated $21, $18 and $17 million in fiscal 1984, 1983 and 1982, respectively.

A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans is as follows:

	December 31,	
(Dollars in thousands)	**1984**	1983
Actuarial present value of accumulated plan benefits:		
Vested	**$3,500**	$ 21,200
Non-Vested	**1,100**	7,300
	$4,600	$ 28,500
Net assets available for benefits	**$5,400**	$380,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9.0% and 9.5% in fiscal 1984 and 1983 respectively. The assumed rate of return used was that published by the Pension Benefit Guaranty Corporation, an agency of the U.S. Government, for the applicable valuation date.

The Company's Canadian pension plans are not required to report to U.S. governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of December 31, 1984 and 1983 was exceeded by the total of those plans' assets and balance sheet accruals.

The Company could, under certain circumstances, be liable for unfunded vested benefits or other costs of jointly administered union/management plans.

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 1,200 employees who have elected early retirement. Benefits are paid until such time as the employee reaches age 65. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported.

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The Effects of Changing Prices (unaudited)

Basis of Preparation—The supplementary financial data presented in the tables below discloses estimated effects of inflation on certain historical financial data as required by Statement No. 33 of the Financial Accounting Standards Board (FASB No. 33), Financial Reporting and Changing Prices, as amended. The Company's primary financial statements are presented on a historical cost basis, that is, on a basis of the prices in effect when the transactions occurred. The data which follows attempts to adjust the historical amounts for the effects of inflation.

Current cost information reflects historical cost data adjusted to reflect the estimated current costs of inventory and property, plant and equipment which have generally increased over time. Because of the rapid turnover of inventories, the carrying value of inventories at historic costs is assumed to approximate current cost; therefore, cost of merchandise sold reflects approximate current costs at time of sale.

The current cost calculations for acquiring the same service potential as the Company's owned assets involve a number of judgments as well as the use of estimating techniques employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead approximations of the price changes that have occurred in specific prices for resources used by the Company.

The current cost of stores operating under capital leases and store equipment was estimated using the unit pricing method. The current costs of all other fixed assets were estimated using the indexing method. Current cost depreciation is based on the average current cost of property and equipment during the year. Depreciation expense was computed by applying the ratio of historical cost and depreciation expense to the current cost of these assets.

Statement of Income Adjusted for Changing Prices

At February 23, 1985 (Dollars in thousands)	Historical Financial Statements	Adjusted For Specific Prices (Current Cost)
Statement of Consolidated Operations:		
Sales	$5,878,286	$5,878,286
Costs and expenses:		
Cost of merchandise sold	4,523,275	4,523,275
Depreciation and amortization	66,242	109,500
Other costs	1,189,290	1,189,290
Total costs and expenses	5,778,807	5,822,065
Income before income taxes and extraordinary credits	99,479	56,221
Net income	215,779	172,521
Changes in carrying values:		
Gain from decline in the purchasing power of net amounts owed		17,000
Increase in current cost of inventories and property, plant and equipment		86,000
Less effect of increase in general price level		24,600
Excess of increases in specific prices over increase in the general price level		61,400
Property, plant and equipment—net	466,437	771,300

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The Effects of Changing Prices (continued)

Five-Year Comparison of Selected Supplementary Financial Data Adjusted For Effects of Changing Prices

(Dollars in thousands, except per share figures—in average 1984 dollars)

For the Fiscal Year	**1984**	1983	1982	1981	1980
Sales	**$5,878,286**	$5,430,893	$4,950,270	$7,052,173	$8,693,856
Historical cost information adjusted for specific prices.					
Net income (loss)	**172,521**	7,613	(34,239)	(211,346)	(124,853)
Net income (loss) per common share	**4.59**	.21	(92)	(5 65)	(3 92)
Excess of increases in specific prices over increases in the general price level	**61,400**	24,088	4,469	14,057	59,690
Net assets at year end	**887,800**	647,697	621,027	680,254	993,552
Other information					
Purchasing power gain on net amounts owed	**17,000**	21,586	18,854	56,592	88,903
Market price per common share at year end	**$15.38**	$12.23	$10.93	$5.24	$7 14
Average consumer price index	**312.9**	300.5	290 8	275.9	251 3

Management Overview—The effect of inflation on the Company's financial results is significant as it relates to inventory, the historical cost of property, plant and equipment (including real property and equipment leased under capital leases) and the related depreciation and amortization expense. Because property, plant and equipment are purchased over an extended period of time, ongoing replacement of existing facilities would be at a much greater cost than that reflected on the balance sheet in historical dollars. Also, depreciation and amortization expense, as reflected in the Company's primary financial statements, includes a ratable portion of those historical dollar costs of property, plant and equipment against sales which are stated in current dollars. The difference between the Statement of Income Adjusted for Changing Prices and the primary financial statements is due to the effect of the increase in depreciation and amortization expense to reflect average fiscal 1984 dollars and specific prices.

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Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1984 and 1983 The first quarter of each fiscal year contains sixteen weeks and each of the remaining three quarters contains twelve weeks. Management's Discussion and Analysis, which appears on page 31, discusses these results and changes reflected therein.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1984					
Sales	$1,716,614	$1,377,410	$1,365,873	$1,418,389	$5,878,286
Gross margin . .	395,552	316,247	317,021	326,191	1,355,011
Income before extraordinary credits	11,091	11,733	15,811	12,144	50,779
Net income.	151,341	19,413	26,731	18,294	215,779
Income per share before extraordinary credits	.30	.31	.42	.32	1 35
Net income per share	4.03	.51	71	.49	5 74
Common stock market price.					
High	16⅝	16½	17¾	16⅞	
Low	11⅞	14½	15½	14⅜	
Number of stores at end of period .	1,015	997	1,017	1,001	
1983					
Sales	$1,507,843	$1,192,243	$1,205,573	$1,316,354	$5,222,013
Gross margin . . .	343,940	267,325	276,954	292,761	1,180,980
Income before extraordinary credit	9,120	7,247	6,478	8,556	31,401
Net income.	13,120	11,247	9,128	14,056	47,551
Income per share before extraordinary credit	.24	.20	.17	.23	.84
Net income per share	.35	.30	.24	.38	1.27
Common stock market price:					
High	12⅞	14⅛	14⅛	13½	
Low.	9⅝	11¼	10½	11⅛	
Number of stores at end of period .	1,021	985	1,049	1,022	

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Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood

James Wood
Chairman of the Board of Directors
and Chief Executive Officer

VCardace

Vito A. Cardace
Senior Vice President and
Chief Financial Officer

Opinion of Independent Certified Public Accountants

The Stockholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc and subsidiary companies as of February 23, 1985 and February 25, 1984 and the related statements of consolidated operations, of consolidated stockholders' equity and of changes in consolidated financial position for each of the three fiscal years in the period ended February 23, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, the accompanying financial statements present fairly the financial position of the companies at February 23, 1985 and February 25, 1984 and the results of their operations and changes in their financial position for each of the three fiscal years in the period ended February 23, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

Deloitte Haskins & Sells
411 Hackensack Avenue
Hackensack, N.J. 07601

April 11, 1985

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Five-Year Summary of Selected Financial Data (Dollars in thousands, except per share figures)

For the Fiscal Year	**1984**	1983	1982	1981	1980 (b)
Operating results					
Sales	**$5,878,286**	$5,222,013	$4,607,817	$6,226,755	$6[illegible]9,529
Income (loss) before extraordinary credits	**50,779**	31,401	21,361	(231,633)	(43,049)
Net income (loss)	**215,779**	47,551	31,211	(101,633)	(43,049)
Per share results (a)					
Income (loss) before extraordinary credits	**1.35**	84	.57	(6.19)	(1.35)
Net income (loss)	**5.74**	1 27	.83	(2.72)	(1.35)
Financial position					
Current assets	**642,822**	654,266	592,801	608,127	782,050
Current liabilities	**472,530**	487,885	407,732	432,365	522,258
Working capital	**170,292**	166,381	185,069	175,762	259,792
Current ratio	**1.36**	1.34	1.45	1.41	1.50
Total assets	**1,363,101**	1,199,928	1,087,395	1,141,679	1,308,983
Long-term debt—less current maturities	**94,635**	106,152	116,557	128,416	130,032
Capital lease obligations —long-term	**148,366**	153,031	143,160	153,975	202,617
Equity					
Stockholders' equity	**582,953**	375,789	329,372	302,153	403,786
Book value per share (a)	**15.50**	10.03	8.81	8.08	12.68
Weighted average shares outstanding	**37,598,720**	37,455,944	37,398,884	37,392,784	31,833,356
Number of stockholders	**24,746**	27,289	29,312	31,311	33,404
Other					
Number of employees	**53,000**	53,000	40,000	45,000	60,000
Number of stores at year end	**1,001**	1,022	1,016	1,055	1,543
Total store area (square feet)	**25,313,000**	23,276,000	22,601,000	23,742,000	33,052,000

(a) Based on the weighted average number of common shares outstanding each year
(b) 53 weeks, all other years contained 52 weeks

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Operating Results

Fiscal 1984 Compared with 1983

Sales for the year ended February 23, 1985, were $5.9 billion as compared with $5.2 billion for the corresponding period of the prior year or a 12.6% increase. Average weekly sales per store for the period increased from $106,500 to $112,953 for an increase of 6.1%. The increase in sales reflects an additional number of new stores resulting from the purchase and construction of new stores during fiscal 1984, the acquisition of Kohl's Food Stores during the third quarter of 1983 and the continued growth and development of the Super Fresh Foods subsidiary.

Gross margins as a percent of sales increased .5% over the prior year, from 22.6% to 23.1% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 21.6% for the current year from 20.9% for the prior year primarily due to an increase in costs associated with the Company's new Employee Retirement Savings Plan and Stock Appreciation Rights.

The increase in interest income is attributable to the higher level of marketable investment securities resulting from the Pension Plan termination. In addition, net income includes $22.5 million of gains realized in connection with the sale of certain marketable investment securities.

The provisions for income taxes increased as a result of increased profitability. The effect of the increase was offset by an extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

With the termination of its Employees' Retirement Plan on May 31, 1984, the Company recorded an extraordinary credit of $135 million.

Fiscal 1983 Compared with 1982

Sales for fiscal 1983 were $5.2 billion compared with $4.6 billion in fiscal 1982, a 13.3% increase. The increase in sales was attributable to the further development of the Super Fresh Foods subsidiary and the acquisition of Kohl's Food Stores in October, 1983. Average weekly sales per store increased from $96,700 to $106,500 for an increase of 10.1% reflecting the development of the Super Fresh Foods subsidiary and the store remodeling and development program.

Gross margins as a percent of sales increased slightly primarily as a result of improved buying practices.

Operating expenses as a percent of sales have remained constant at 20.9% from 1982 to 1983.

The provisions for income taxes increased as a result of increased profitability. The effect of the increase was offset, in part, by the extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

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Operating Results (continued)

Fiscal 1982 Compared with 1981

Sales for fiscal 1982 were $4.6 billion compared with $6.2 billion in fiscal 1981, a 26.0% decrease. The significant decrease in sales was attributable to a 34.2% reduction in the number of open stores from 1,543 at the beginning of fiscal 1981 to 1,016 at the end of fiscal 1982. Identical store sales however, showed a favorable trend with a 1.3% increase year to year. Average sales per store increased from $88,000 to $96,700 for an increase of 9.9% reflecting the impact of the closing of smaller stores during the year.

Gross margins as a percent of sales increased 1.1% over the prior year, from 21.3% to 22.4% primarily as a result of improved product mix, increased buying allowances, the introduction of a forward buying program and improved inventory loss control.

In addition, a consolidation and/or reduction of the Company's administrative and support facilities contributed to an overall reduction of operating expenses from 21.2% of sales in fiscal 1981 to 20.9% in fiscal 1982.

The provisions for income taxes increased as a result of increased profitability. The effect of the increase was offset, in part, by the extraordinary credit representing the utilization of the Company's U.S. Federal net operating loss carryforward.

The overall performance in fiscal 1982 reflects the major redeployment of assets away from the food processing operations to the retailing sector and the conversion of existing retail facilities to higher volume type operations such as the Company's newly formed Super Fresh and Super Plus subsidiaries.

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $170.3 million as compared with $166.4 million and $185.1 million at February 25, 1984 and February 26, 1983, respectively. The Company had cash and short term investments aggregating $72.6 million at the end of fiscal 1984 as compared with $65.2 million and $98.4 million at the end of fiscal 1983 and fiscal 1982, respectively. In addition, at the end of fiscal 1984, the Company had $244.9 million of marketable securities and other investments as a result of receiving the excess pension plan assets from the Employees' Retirement Plan which terminated on May 31, 1984.

To further improve the Company's liquidity and capital resources, a $100 million Credit Agreement was established during fiscal 1983. This Agreement allows the Company to borrow on a revolving basis until September 1, 1986, at which time all outstanding borrowings and/or additional borrowings up to an aggregate of $100 million may be converted to a 4-year term-loan with equal semi-annual installments. There have been no borrowings under this Agreement. In addition, the Company had credit lines from commercial banks of approximately $52 million as of the end of fiscal 1984. These credit lines have been utilized to give the Company additional financial flexibility for seasonal inventory requirements. During fiscal 1984, the Company financed its $113 million capital expenditures through internally generated cash flow supplemented by equipment leasing programs and sale/leasebacks.

The second installment under the Company's $100 million, 9½% Senior Note Agreements was made during fiscal 1984. Future installments of $10 million will be made annually through 1992. In addition, the Company has forecast capital expenditures in fiscal 1985 of approximately $130 million. It is currently anticipated that these amounts will be financed through internally generated funds supplemented by further equipment leasing and/or owned property financing

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Corporate Officers

James Wood
Chairman of the Board and Chief Executive Officer

Louis Sherwood
President

James W. Rowe
Vice Chairman of the Board, Chief Administrative Officer and Assistant to the C.E.O.

Eckart C. Siess
Vice Chairman of the Board, Subsidiary Companies

Alan C. Goulding
Senior Executive Vice President and Chief Operating Officer

Martin H. Kern
Executive Vice President, Merchandising/Purchasing

Joseph H. McCarthy
Executive Vice President—Store Operations

Vito A. Cardace
Senior Vice President and Chief Financial Officer

Peter J. O'Gorman
Senior Vice President, Development

Ivan K. Szathmary
Senior Vice President, M.I.S., Manufacturing and Distribution

Robert G. Ulrich
Senior Vice President and General Counsel

Thomas L. Barrette
Vice President, Human Resources

Randall A. Bostwick
President, Super Market Service Corp.

Peter R. Brooker
Vice President, Planning and Corporate Secretary

James B. Burmeister
Vice President, Southeast Group

O.C. Cook
Vice President, Perishables

Timothy J. Courtney
Vice President, Taxation

Julian J. DiFiore
President, Super Fresh Food Markets

Donald D. Dobson
Vice President, Southern Group

R. Paul Gallant
President, Compass Foods

Peter R. Lavoy
Vice President, Grocery Merchandising

Francis X. Leonard
Vice President, Real Estate

H. Nelson Lewis
Vice President, Retail Operations Services

James L. Madden
Vice President, Mid-Atlantic Group

Edward C. Mossop
Chairman, A&P Canada

Joseph P. Quirk
Vice President, Labor Relations

Gregory K. Raven
Vice President, Treasurer and Assistant to the Chief Financial Officer

Michael J. Rourke
Vice President, Communications and Corporate Affairs

John D. Ryder
Vice President, Marketing/Advertising

John C. Sherrard
Vice President, Richmond Division

Caryle Sherwin
President, Michigan Operations

William G. Spearman
President, Kohl's Food Stores

J. Paul Stillwell
President, Family Center, Inc.

Robert W. Toomey
Vice President, Distribution

Burton J. Weinbaum
Vice President, Northeast Group

Richard J. Scola
Assistant Secretary

Directors

James Wood (c)
Chairman of the Board and Chief Executive Officer

Rosemarie Baumeister (b)
Vice President, Tengelmann Warenhandelsgesellschaft, West Germany

Harold J. Berry (b)(c)(d)
Vice Chairman of The Board Emeritus, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Walter D. Dance (a)(d)(e)
Director Emeritus and Consultant, General Electric Company

Christopher F. Edley (a)(e)
President, United Negro College Fund, Inc.

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(e)
Director of various corporations

Paul C. Nagel, Jr. (a)(d)
Director of various corporations

James W. Rowe (c)(d)(e)
Vice Chairman of the Board, Chief Administrative Officer and Assistant to the C.E.O.

Louis Sherwood (c)(d)
President

Eckart C. Siess (c)(e)
Vice Chairman of the Board, Subsidiary Companies

Fritz Teelen
Executive Vice President, Merchandising, Tengelmann Warenhandelsgesellschaft

Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit Review Committee
Paul C. Nagel, Jr., Chairman
(b) Member of Compensation Policy Committee
Harold J. Berry, Chairman
(c) Member of Executive Committee
James Wood, Chairman
(d) Member of Finance Committee
Paul C. Nagel, Jr., Chairman
(e) Member of Retirement Benefits Committee
Barbara B. Hauptfuhrer, Chairman

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Transfer Agent and Registrar
Manufacturers Hanover Trust Company
New York, New York

The Annual Meeting will be held on Tuesday, July 16, 1985 at 10:00 a.m., at the Woodcliff Lake Hilton, Chestnut Ridge Road, Woodcliff Lake, N.J. 07675. Stockholders are cordially invited to attend.

Copies of Form 10-K submitted to the Securities and Exchange Commission will be provided to stockholders upon written request to the Secretary.

Common stock of the Company is traded on the New York Stock Exchange under the symbol "GAP," and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges.

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